

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Lenawee County Building Authority	County Lenawee
Fiscal Year End 12/31/2006	Opinion Date 5/16/2007	Date Audit Report Submitted to State 5/23/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

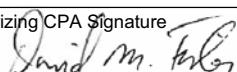
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) REHMANN ROBSON		Telephone Number 517.787.6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name David M. Fisher, CPA		License Number 10337

**LENAWEE COUNTY
BUILDING AUTHORITY**

Lenawee County, Michigan

FINANCIAL STATEMENTS

**For The Year Ended
December 31, 2006**



REHMANN ROBSON

Certified Public Accountants

LENAWEE COUNTY BUILDING AUTHORITY

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



INDEPENDENT AUDITORS' REPORT

May 16, 2007

Commission Members
Lenawee County Building Authority
Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of **LENAWEE COUNTY BUILDING AUTHORITY** (a Michigan Corporation and Authority and a component unit of the County of Lenawee) as of and for the year ended December 31, 2006, which collectively comprise the Building Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Building Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of Lenawee County Building Authority at December 31, 2006, and the respective changes in financial position and cash flows where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2007, on our consideration of the *Lenawee County Building Authority's* internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Lenawee County Building Authority has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

COMPONENT-WIDE FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

December 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 1,560,036	\$ 867,130	\$ 2,427,166
Receivables	66,204	-	66,204
Net investment in direct financing lease	3,456,544	3,713,150	7,169,694
Other assets	-	104,526	104,526
Capital assets not being depreciated	-	75,000	75,000
Capital assets being depreciated, net	-	5,101,022	5,101,022
Total assets	5,082,784	9,860,828	14,943,612
Liabilities			
Accounts payable and accrued expenses	27,784	22,529	50,313
Unearned revenue	-	268,476	268,476
Noncurrent liabilities:			
Due within one year	350,000	900,000	1,250,000
Due in more than one year	4,705,000	5,070,000	9,775,000
Total liabilities	5,082,784	6,261,005	11,343,789
Net Assets			
Invested in capital assets, net of related debt	-	3,161,022	3,161,022
Unrestricted	-	438,801	438,801
Total net assets	\$ -	\$ 3,599,823	\$ 3,599,823

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Activities

For the Year Ended December 31, 2006

<u>Functions / Programs</u>	<u>Expenses</u>	<u>Program</u>	<u>Net (Expense)</u>
		<u>Revenues</u>	
		<u>Charges</u>	<u>Revenue</u>
		<u>for Services</u>	
Primary government			
Governmental activities:			
Interest on bonds	\$ 169,791	\$ 169,791	\$ -
Business-type activities:			
Human Services Building Operations	1,033,553	1,461,201	427,648
Medical Care Facility	33,215	33,215	-
Total business-type activities	1,066,768	1,494,416	427,648
Total primary government	\$ 1,236,559	\$ 1,664,207	\$ 427,648

continued...

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Activities (Concluded)
For the Year Ended December 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Changes in net assets			
Net (expense) revenue	\$ -	\$ 427,648	\$ 427,648
General revenues:			
Unrestricted investment earnings	-	29,244	29,244
Change in net assets	-	456,892	456,892
Net assets, beginning of year	-	3,142,931	3,142,931
Net assets, end of year	\$ -	\$ 3,599,823	\$ 3,599,823

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

LENAWEE COUNTY BUILDING AUTHORITY

Balance Sheet Governmental Funds December 31, 2006

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,473,742	\$ 86,294	\$ 1,560,036
Accounts receivable, net	59,760	-	59,760
Due from other governments	5,444	-	5,444
Due from other funds of Lenawee County	1,000	-	1,000
	<hr/>		
<u>TOTAL ASSETS</u>	\$ 1,539,946	\$ 86,294	\$ 1,626,240
<hr/>			
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts and contracts payable	\$ -	\$ 237	\$ 237
Deferred revenue	59,759	-	59,759
	<hr/>		
	59,759	237	59,996
Fund balances			
Unreserved - undesignated	1,480,187	86,057	1,566,244
	<hr/>		
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 1,539,946	\$ 86,294	\$ 1,626,240
	<hr/>		

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets of
Governmental Activities on the Statement of Net Assets
December 31, 2006

Fund balances - total governmental funds	\$ 1,566,244
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures. Those assets (such as certain receivables) are offset by deferred revenue in the governmental funds, and thus are not included in fund balance.

Add - net investment in direct financing lease	3,456,544
Add - deferred accounts receivable	59,759

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(5,055,000)
Deduct - accrued interest on long-term liabilities	(27,547)

Net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 10px;">\$ -</div>
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	Debt Service- Jail	Capital Projects- Jail	Total Governmental Funds
Revenue			
Charges for services	\$ 354,786	\$ -	\$ 354,786
Interest revenue	68,833	6,766	75,599
Total revenue	423,619	6,766	430,385
Expenditures			
Current:			
Public safety	-	57,434	57,434
Debt service:			
Principal	325,000	-	325,000
Interest and fiscal charges	170,943	-	170,943
Total expenditures	495,943	57,434	553,377
Net change in fund balances	(72,324)	(50,668)	(122,992)
Fund balance, beginning of year	1,552,511	136,725	1,689,236
Fund balance, end of year	\$ 1,480,187	\$ 86,057	\$ 1,566,244

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended December 31, 2006

Net change in fund balances - total governmental funds	\$ (122,992)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report revenue raised to support the construction and financing of leased facilities and the related capital outlays as revenue and expenditures. However, in the statement of activities, these receipts and disbursements are recorded as adjustments to the net investment in direct financing leases.

Deduct - net adjustment to the investment in direct financing leases	(203,160)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add - principal payments on bonds payable	325,000
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add - decrease in accrued interest payable on bonds	1,152
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Change in net assets of governmental activities	\$ -
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The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Net Assets

Proprietary Funds

December 31, 2006

	Human Services Building	Medical Care Facility	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 825,280	\$ 41,850	\$ 867,130
Current portion of net investment in direct financing lease	-	195,000	195,000
Total current assets	825,280	236,850	1,062,130
Noncurrent assets			
Net investment in direct financing lease, net of current portion	-	3,518,150	3,518,150
Deferred cost on bond reissue, net of amortization	104,526	-	104,526
Capital assets, net of accumulated depreciation	5,176,022	-	5,176,022
Total noncurrent assets	5,280,548	3,518,150	8,798,698
Total assets	6,105,828	3,755,000	9,860,828
Liabilities			
Current liabilities			
Accounts payable	7,002	-	7,002
Accrued wages and benefits	6,041	-	6,041
Accrued interest payable	9,486	-	9,486
Unearned revenue	268,476	-	268,476
Current portion of due to Lenawee County	50,000	-	50,000
Current portion of bonds payable	655,000	195,000	850,000
Total current liabilities	996,005	195,000	1,191,005
Long-term debt			
Bonds payable, net of current portion	1,360,000	3,560,000	4,920,000
Due to Lenawee County, net of current portion	150,000	-	150,000
Total long-term debt	1,510,000	3,560,000	5,070,000
Total liabilities	2,506,005	3,755,000	6,261,005
Net assets			
Invested in capital assets, net of related debt	3,161,022	-	3,161,022
Unrestricted	438,801	-	438,801
Total net assets	\$ 3,599,823	\$ -	\$ 3,599,823

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Statement of Revenue, Expenses and Changes in Fund Net Assets Proprietary Funds For the Year Ended December 31, 2006

	Human Services Building	Medical Care Facility	Total
Operating revenue			
Charges for services	\$ 69,883	\$ 33,215	\$ 103,098
Rental income	1,389,081	-	1,389,081
Vending and other income	2,237	-	2,237
Total operating revenue	1,461,201	33,215	1,494,416
Operating expenses			
Personal services costs	342,276	-	342,276
Supplies and other operating expenses	193,799	-	193,799
Other contractual services	102,297	-	102,297
Administrative costs	30	-	30
Depreciation expense	153,968	-	153,968
Total operating expenses	792,370	-	792,370
Operating income	668,831	33,215	702,046
Non-operating revenue (expenses)			
Interest income	29,244	-	29,244
Interest expense	(113,981)	(33,215)	(147,196)
Total non-operating revenue (expenses)	(84,737)	(33,215)	(117,952)
Income before transfers	584,094	-	584,094
Transfers to other funds of Lenawee County	(127,202)	-	(127,202)
Change in net assets	456,892	-	456,892
Net assets, beginning of year	3,142,931	-	3,142,931
Net assets, end of year	\$ 3,599,823	\$ -	\$ 3,599,823

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY**Statement of Cash Flows****Proprietary Funds****For the Year Ended December 31, 2006**

	Human Services Building	Medical Care Facility	Total
Cash flows from operating activities			
Cash received from users	\$ 1,370,011	\$ 33,215	\$ 1,403,226
Other operating receipts	2,237	-	2,237
Cash paid to employees and suppliers	(639,844)	-	(639,844)
Net cash provided by operating activities	732,404	33,215	765,619
Cash flows from capital and related financing activities			
Proceeds from long-term debt	-	2,595,000	2,595,000
Principal payments on long-term debt	(690,000)	(125,000)	(815,000)
Interest payments on long-term debt	(81,514)	(33,215)	(114,729)
Net cash provided by (used in) capital and related financing activities	(771,514)	2,436,785	1,665,271
Cash flows from non-capital financing activities			
Transfers to other funds of Lenawee County	(127,202)	-	(127,202)
Cash flows from investing activities			
Interest income received	29,244	-	29,244
Issuance of direct financing lease	-	(2,595,000)	(2,595,000)
Amounts collected on direct financing lease	-	130,635	130,635
Net cash provided by (used in) investing activities	29,244	(2,464,365)	(2,435,121)
Net increase (decrease) in cash and cash equivalents	(137,068)	5,635	(131,433)
Cash and cash equivalents, beginning of year	962,348	36,215	998,563
Cash and cash equivalents, end of year	\$ 825,280	\$ 41,850	\$ 867,130

LENAWEE COUNTY BUILDING AUTHORITY
Statement of Cash Flows (Concluded)
Proprietary Funds
For the Year Ended December 31, 2006

	Human Services Building	Medical Care Facility	Total
<hr/>			
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 668,831	\$ 33,215	\$ 702,046
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	153,968	-	153,968
Increase (decrease) in:			
Accounts payable	(2,066)	-	(2,066)
Accrued wages and benefits	624	-	624
Unearned revenue	(88,953)	-	(88,953)
	<hr/>		
Net cash provided by operating activities	<u>\$ 732,404</u>	<u>\$ 33,215</u>	<u>\$ 765,619</u>

The accompanying notes are an integral part of these financial statements.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lenawee County Building Authority (“Authority”) was created in October, 1987, pursuant to the provisions of Act 31, extra session of 1948, of the Public Acts of Michigan. The Authority has no stockholders, and all monies received are designated for the costs of designing, constructing, equipping and operating a new Human Services Building and other facilities as needed, to be used by certain County Departments, State Agencies, and Federal Departments, in accordance with the agreement between the incorporating County of Lenawee (“County”), the Authority, and its bondholders.

In 2001, the Authority approved entering into a contract with the County to provide for the costs of constructing and equipping a new jail facility. The Authority issued bonds in 2003 to supplement local contributions to this project.

In 2004, the Authority approved entering into a contract with the County to refinance debt of the Medical Care Facility for prior improvements. The Authority issued bonds in 2004.

The Authority is a component unit of the County of Lenawee. The Authority is considered to be a component unit of the County because the County appoints the majority of the Authority Board members and has the ability to significantly influence operations.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Charges for services and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period.

The Authority reports the following major governmental funds:

The *jail debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt issued for the construction of the jail.

The *jail capital projects fund* accounts for the construction of the new jail.

The Authority reports the following major proprietary funds:

The *human services building fund* accounts for the construction, operation, maintenance, and financing of the human services building.

The *medical care facility fund* accounts for the financing of the medical care facility building.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Human Services Building are rental charges to building tenants. Operating expenses for enterprise funds include the cost of building maintenance, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Net Assets or Equity

1. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less.

Investments are stated at fair value.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

State statutes authorize the Authority to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

2. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At December 31, 2006, the Authority's cash and cash equivalents consisted of the following:

	<u>Book</u>	<u>Bank</u>
<u>Deposits</u>		
Checking and savings accounts	\$ 134,028	\$ 132,940
Certificates of deposits	1,467,858	1,467,858
Equity in pooled checking account	<u>130,171</u>	<u>N/A</u>
Total deposits	1,732,057	<u>\$ 1,600,798</u>
<u>Investment</u>		
MBIA government liquid asset fund	<u>695,109</u>	<u>\$ 695,109</u>
	<u>\$ 2,427,166</u>	

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments in the summary of significant accounting policies. The County's investment policy does not have specific limits in excess of state law on investment credit risk. As of December 31, 2006, the Authority through the County Treasurer has investments that consist of \$695,109 in MBIA government liquid asset funds. This investment is not rated.

Custodial Credit Risk – Deposits. The Authority maintains \$1,600,798 in checking, savings and CD accounts at banks which are under custody of the County Treasurer. It is not practical to determine the insured portion of these balances since they are included in the pooled and other cash accounts of Lenawee County.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the County does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments in the summary of significant accounting policies. The Authority's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

B. Receivables

Receivables in governmental activities are comprised of the following:

Accounts receivable - jail	\$ 5,094,131
Due from other governments	5,444
Due from other funds of County	<u>1,000</u>
Subtotal	5,100,575
Less: allowance for doubtful accounts	<u>5,034,371</u>
	<u><u>\$ 66,204</u></u>
Amount not expected to be collected within one year	<u><u>\$ 40,000</u></u>

C. Capital Assets

Capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 75,000	\$ -	\$ -	\$ 75,000
Capital assets, being depreciated:				
Buildings and improvements	7,603,554	-	-	7,603,554
Less accumulated depreciation for:				
Buildings and improvements	<u>2,348,564</u>	<u>153,968</u>	<u>-</u>	<u>2,502,532</u>
Total capital assets, being depreciated, net	<u>5,254,990</u>	<u>(153,968)</u>	<u>-</u>	<u>5,101,022</u>
Business-type activities capital assets, net	<u><u>\$ 5,329,990</u></u>	<u><u>\$ (153,968)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,176,022</u></u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

D. Net Investment in Direct Financing Lease (Capital Lease)

Governmental Activities

During the year ended December 31, 2003, the Building Authority issued general obligation bonds to finance the costs of constructing and equipping a new jail facility. Under a lease agreement, the County has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 3,456,544
Less: Current portion of net investment in capitalized lease	<u>350,000</u>
	<u>\$ 3,106,544</u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the jail facility less any cash remaining in the Building Authority to repay the debt.

Business-type Activities

During the year ended December 31, 2004, the Building Authority issued general obligation bonds to pay-off amounts owed by the County Medical Care Facility to the Delinquent Tax Revolving Fund. Under a lease agreement, the County Medical Care Facility has agreed to pay the Authority periodic cash rental amounts sufficient to enable the Authority to pay the principal and interest on the bonds. Such rentals are pledged exclusively for payment of principal and interest on the revenue bonds, and cease after all revenue bonds have been retired. The County has pledged its full faith and credit for the payment of the cash rentals as additional security.

The long-term lease has been accounted for as a direct financing lease in accordance with Statement of Financial Accounting No. 13, "Accounting for Leases". The future minimum lease rentals receivable are sufficient to repay the revenue bonds and interest.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

The Authority's net investment in direct financing lease consists of:

Net investment in capitalized lease	\$ 3,713,150
Less: Current portion of net investment in capitalized lease	<u>195,000</u>
	<u>\$ 3,518,150</u>

The future minimum lease rentals receivable represent amounts due for repayments on the bonds for the Medical Care Facility less any cash remaining in the Building Authority to repay the debt.

E. Payables

Accounts payable and accrued liabilities in the governmental activities are as follows:

Trade accounts payable	\$ 237
Accrued interest payable	<u>27,547</u>
	<u>\$ 27,784</u>

Accounts payable and accrued liabilities in the business-type activities are as follows:

Trade accounts payable	\$ 7,002
Wages, fringe benefits and other accrued liabilities	6,041
Accrued interest payable	<u>9,486</u>
	<u>\$ 22,529</u>

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

F. Long-term Debt

The Authority issues limited tax general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental and business-type activities.

Authority long-term debt activity for the year ended December 31, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
G.O. Bonds of \$6,030,000 due in varying annual installments of \$325,000 to \$530,000 at interest rates of 2.1% to 3.9%.	\$ 5,380,000	\$ -	\$ 325,000	\$ 5,055,000	\$ 350,000
Business-type activities:					
G.O. Bonds of \$1,410,000, due in varying installments of \$125,000 to \$165,000 plus interest rates of 2.0% to 3.5%, through 2014.	\$ 1,285,000	\$ -	\$ 125,000	\$ 1,160,000	\$ 130,000
G.O. Bonds of \$2,595,000, due in varying installments of \$65,000 to \$200,000 plus interest rates of 3.5% to 4.0%, through 2026.	-	2,595,000	-	2,595,000	65,000
Refunding G.O. Bonds of \$4,525,000, due in varying installments of \$610,000 to \$680,000 plus interest rates of 2.0% to 3.1%, through 2009.	2,655,000	-	640,000	2,015,000	655,000
Total bonds	3,940,000	2,595,000	765,000	5,770,000	850,000
Loans Payable to Lenawee County Delinquent Tax Revolving Fund	250,000	-	50,000	200,000	50,000
Total long-term debt	\$ 4,190,000	\$2,595,000	\$ 815,000	\$ 5,970,000	\$ 900,000

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

On September 1, 2002, the County issued \$4,525,000 in Limited Tax Full Faith and Credit General Obligation Refunding Bonds with an average rate of 2.6% to advance refund \$4,260,000 of outstanding 1993 Series Limited Tax Full Faith and Credit General Obligation Bonds with an average interest rate of 5.6%. As a result, the \$4,260,000 remaining 1993 Series bonds are considered to be defeased and the liability for these bonds has been removed from the Building Authority Fund. The balance of the defeased bonds outstanding was \$2,015,000 at December 31, 2006. This transaction resulted in a deferred cost on refunded bonds, where the difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized over the remaining life of the new debt (through 4/30/09).

The annual requirements to amortize the general obligation bonds as of December 31, 2006, are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 350,000	\$ 162,836	\$ 850,000	\$ 196,623
2008	350,000	154,261	895,000	156,141
2009	375,000	144,548	905,000	129,366
2010	375,000	133,580	235,000	111,773
2011	400,000	121,262	725,000	129,243
2012-2016	2,175,000	467,507	555,000	372,389
2017-2021	1,030,000	39,984	705,000	252,770
2022-2026	-	-	900,000	93,996
	<u>\$5,055,000</u>	<u>\$1,223,978</u>	<u>\$5,770,000</u>	<u>\$1,442,301</u>

The Authority has borrowed \$1,000,000 from the Lenawee County Delinquent Tax Revolving Fund. Under a revised plan which became effective for the year ended December 31, 1990 and continues annually each year thereafter, principal of \$50,000 per year is to be repaid through December 31, 2009, and a provision is made to repay to the County 75% of total annual interest earnings on investments in the Bond and Interest account (restricted cash and cash equivalents) each year, as interest expense.

LENAWEE COUNTY BUILDING AUTHORITY

Notes To Financial Statements

Principal payments remaining under this obligation are as follows:

<u>Maturing December 31,</u>	<u>Principal Amount</u>
2007	\$ 50,000
2008	50,000
2009	<u>100,000</u>
Total	<u>\$ 200,000</u>

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REHMANN ROBSON

Certified Public Accountants

A member of **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

May 16, 2007

Commission Members
Lenawee County Building Authority
Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***Lenawee County Building Authority***, as of and for the year ended December 31, 2006, which collectively comprise the Building Authority's basic financial statements, and have issued our report thereon dated May 16, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lenawee County Building Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Building Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Building Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Building Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Building Authority's financial statements that is more than inconsequential will not be prevented or detected by the Building Authority's internal control. We consider the following deficiency to be a significant deficiency in internal control over financial reporting.

2006-1**Preparation of Financial Statements in Accordance with GAAP**

Criteria:	All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the government's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting.)
Condition:	As is the case with many smaller and medium-sized entities, the government has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its <i>external</i> auditors, who cannot by definition be considered a part of the government's <i>internal</i> controls.
Cause:	This condition was caused by the government's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the government to perform this task internally.
Effect:	As a result of this condition, the government lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.
Management's response:	The government has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the government to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Building Authority's internal control. We did not consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lenawee County Building Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management, the Commissioners of the Building Authority, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The script is cursive and fluid, with the first letters of each word being capitalized and prominent.